Budget 2016-17

Target Practice

KNOWLEDGE SHOP

Contents

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Target Practice

The 2016-17 Federal Budget is a budget of targets – broad targets to boost business and innovation, and the narrow revenue targets of the wealthy and multi-nationals. It's a big, long-term crafted budget designed to give enough pre-election glow but with structural measures to reign in spending and reduce concessions.

At one end, the Budget contains broad measure to bolster business, investment and innovation including tax cuts and a number of tax measures enabling and freeing up alternate funding and investment sources for business.

At the other end are significant reforms restricting access to superannuation concessions as well as a stronger crackdown on multinationals diverting profits outside Australia.

To police the new revenue measures, the ATO gets an extra $678.9 million to establish a new Tax Avoidance Taskforce.

Plus, the Budget allows for a $1.6 billion "decisions taken but not yet announced" election war chest.

Business

- Company tax rate reduced to 25% over 10 years
- Increase in tax discount for unincorporated small business to 16% over 10 years
- Small business entity threshold increase to $10m from 1 July 2016
- $1k GST exemption on imported goods abolished from 1 July 2017
- UK style diverted profits tax to reign in multinationals

Superannuation

- $500,000 lifetime non-concessional contributions cap from Budget night
- Reduction in concessional contribution cap from 1 July 2017
- Tax exemption on earnings supporting transition to retirement income streams (TRIS) removed from 1 July 2017
- 30% tax on super contributions of high income earners extended
- Tax free super balances capped at $1.6m from 1 July 2017

Individuals

- 32.5% personal income tax threshold increase to $87,000 from 1 July 2016
- Subsidies to create employment path for unemployment youth

Other

- $678.9m ATO anti-avoidance taskforce
- Tobacco excise adds $4.7bn

Look out for the 2016-17 Budget tracker on the member-only website for the latest status of announced changes.

Business Tax Cuts

The Budget introduces a series of tax cuts progressively applied to business. Significantly, the threshold for accessing some of the small business entity concessions will increase dramatically from the current $2 million threshold to $10 million.

More

- A tax plan for Australia's future

Reducing the company tax rate to 25%

Date of effect	Progressively from 2016-17

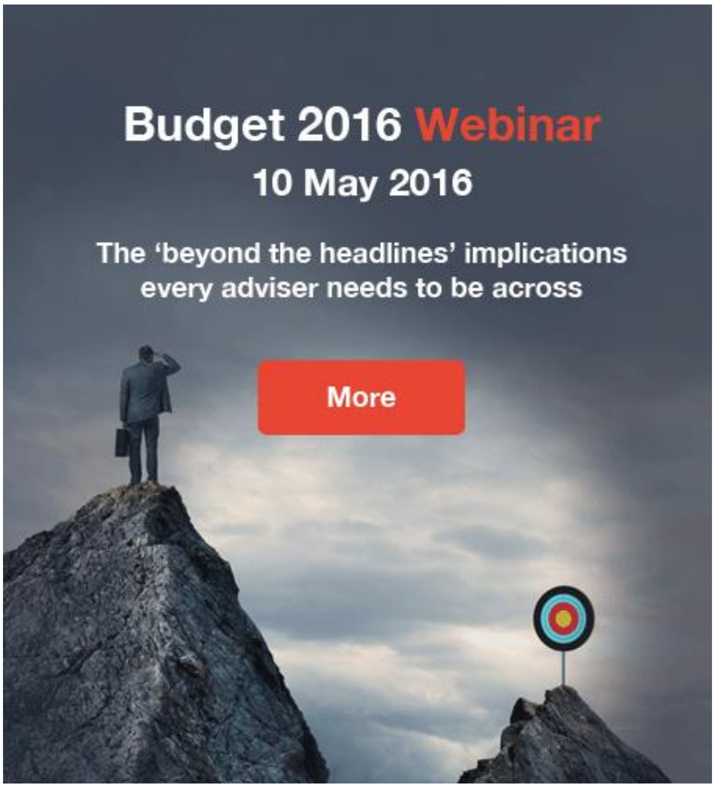
The company tax rate will be reduced to 25% over 10 years. The reduction will initially target companies with a turnover less than $10 million, then gradually increase access:

Year	Company annual aggregated turnover	Tax rate
2016-17	Less than $10 million $10 million or more	27.5% 30%
2017-18	Less than $25 million $25 million or more	27.5% 30%
2018-19	Less than $50 million $50 million or more	27.5% 30%
2019-20	Less than $100 million $100 million or more	27.5% 30%
2020-21	Less than $250 million $250 million or more	27.5% 30%
2021-22	Less than $500 million $500 million or more	27.5% 30%
2022-23	Less than $1 billion $1 billion or more	27.5% 30%
2023-24	All	27.5%
2024-25	All	27%
2025-26	All	26%
2026-27	All	25%

Franking credits will still be calculated with reference to the amount of tax paid by the company paying the dividends.

Tax discount for unincorporated small business entities – trusts, partnerships etc.

Date of effect	Progressively from 1 July 2016



The tax discount for unincorporated small businesses will increase incrementally over 10 years from 5% to 16%.

The tax discount will increase to 8% on 1 July 2016, remain constant at 8% for eight years, then increase to 10% in 2024-25, 13% in 2025-26 and reach a new permanent discount of 16% in 2026-27. The measure coincides with staggered cuts in the corporate tax rate to 25%.

Year	Tax Discount
1 July 2016 – 30 June 2024	8%
2024-25	10%
2025-26	13%
2026-27	16%

The current cap of $1,000 per individual for each income year will be retained.

The tax discount applies to the income tax payable on the business income received from an unincorporated small business entity. Access to the discount will be extended to individual taxpayers with business income from an unincorporated business that has an aggregated annual turnover of less than $5 million.

Small business entity threshold jumps to $10m

Date of effect	1 July 2016

In a significant win for business, the small business entity turnover threshold will increase from $2 million to $10 million from 1 July 2016. The reform will give a greater number of businesses access to a range of tax concessions such:

- The lower small business corporate tax rate (27.5%);
- Simplified depreciation rules including an immediate write-off for assets costing less than $20,000 that are acquired by 30 June 2017 and depreciation pooling provisions;
- Simplified trading stock rules;
- A different method of calculating PAYG instalments;
- The option of accounting for GST on a cash basis;
- FBT exemptions (this would start from 1 April 2017); and
- A trial system of using a simpler business activity statement.

The current $2 million turnover threshold will be retained for access to the small business CGT concessions and access to the unincorporated small business tax discount will be limited to entities with turnover less than $5 million.

Business incentives

Innovation agenda bolstered further

The Government has further bolstered its National Innovation and Science Agenda (NISA).

Angel investor tax breaks expanded

In December last year the Government announced incentives for angel investors that would provide a 20% non-refundable tax offset based on the amount of their investment capped at $200,000 per investor, per year. This would allow the investors to reduce their overall tax liability for the relevant year.

The Government also announced that the incentive would provide a 10-year CGT exemption for investments held for at least three years.

These tax concessions will only be available to investors in eligible companies:

- That undertake an eligible business
- Incorporated during the last three income years
- Are not listed on any stock exchange
- Have expenditure less than $1 million and income less than $200,000 in the previous income year.

The Budget extends the concessions by:

- Reducing the holding period from three years to 12 months for investors to access the 10 year capital gains tax exemption;

- Including in the definition of eligible start-ups a time limit on incorporation and criteria for determining if the startup is an innovation company;
- Requiring that the investor and innovation company are non-affiliates; and
- Limiting the investment amount for non-sophisticated investors to $50,000 or less per income year in order to receive a tax offset.

More:

Previous announcements & Legislation

- Tax Laws Amendment (Tax Incentives for Innovation) Bill 2016
- National Innovation and Science Agenda
- Mid-year economic and fiscal outlook (MYEFO) 2015-16
- Policy discussion paper

Venture capital initiatives expanded

In December 2016, the Government announced incentives to encourage venture capital investment including the introduction of a 10% non-refundable tax offset for capital invested in new Early Stage Venture Capital Limited Partnerships (ESVCLPs), and increasing the cap on committed capital from $100 million to $200 million for new ESVCLPs. The Government also announced plans to remove the requirement for ESVCLPs to divest a company when its value exceeds $250 million.

In addition, the reforms relax eligibility and investment requirements to allow managers to undertake a broader range of investment activities and facilitate a greater diversity of investors.

Investors in ESVCLPs are already entitled to certain tax concessions.

The amendments are expected to apply from 1 July 2016.

The Budget extends these initiatives to:

- Add a transitional arrangement that allows conditionally registered funds that become unconditionally registered after 7 December 2015 to access the tax offset if the criteria are met;
- Relax the requirement for very small entities to provide an auditors' statement of assets;
- Extend the increase in fund size from $100 million to $200 million for new ESVCLPs to also apply to existing ESVCLPs; and
- Ensure that the venture capital tax concessions are available for FinTech, banking and insurance related activities.

More

- Embracing our FinTech future

Previous

- Tax Laws Amendment (Tax Incentives for Innovation) Bill 2016
- Joint media release
- The Treasury - New tax incentives for venture capital
- Mid-Year Economic and Fiscal Outlook 2015-16 - Revenue measure page 120

Two new collective investment vehicles

Date of effect	Corporate CIV - income years starting on or after 1 July 2017 Limited partnership CIV - income years starting on or after 1 July 2018

A new tax and regulatory framework will be introduced for two new types of collective investment vehicles (CIVs). CIVs allow investors to pool their funds and have them managed by a professional funds manager. A corporate CIV will be introduced for income years starting on or after 1 July 2017. This will be followed by a limited partnership CIV for income years starting on or after 1 July 2018.

The reforms allow fund managers to offer investment products using vehicles commonly used overseas. The measure should help improve the effectiveness of related initiatives aimed at increasing access to overseas markets including the Asia Region Funds Passport.

The new CIVs will be required to meet similar eligibility criteria as managed investment trusts, such as being widely held and engaging in primarily passive investment. Investors in these new CIVs will generally be taxed as if they had invested directly.

FinTech - financial technology

The Government has made a number of statements on supporting financial technology. You can read the details of the Government response here.

ASIC's Regulatory 'Sandbox'

In the coming weeks, ASIC will release a consultation paper on a regulatory sandbox exemption to facilitate the testing of new FinTech products and services. That is, FinTech start-ups and businesses can test ideas for up to six months with a limited number of retail clients subject to prescribed investment thresholds and restrictions on the types of services eligible for testing.

GST treatment of digital currency

While not strictly part of the Budget, Treasury has simultaneously released a discussion paper on the GST treatment of digital currency as part of the FinTech package. The discussion paper seeks to address the 'double taxation' of digital currencies under the GST system. The current tax treatment of digital currencies such as Bitcoin results in transactions where consumers use Bitcoin to pay for other goods and services in effect bearing GST twice – once with the embedded GST borne on the acquisition of the Bitcoin and once again on its use in exchange for other goods and services subject to the GST.

More

- GST Treatment of digital currency
- Embracing our FinTech future

Better access to asset backed financing

Date of effect	1 July 2018

This reform aims to improve access to more diverse sources of capital in Australia by removing barriers to asset backed financing arrangements - supported by assets such as deferred payment and hire purchase arrangements.

While no detail is available, the reforms will clarify the tax treatment of asset backed financing arrangements and ensure that they are treated in the same way as financing arrangements based on interest bearing loans or investments. It is expected that this will help to support infrastructure investment and other large and long term projects.

Distillers refund scheme extended

Date of effect	1 July 2017

The current brewery refund scheme will be extended to domestic producers of whisky, vodka, gin, liqueur and producers of low strength fermented beverages such as non-traditional cider. The refund scheme currently provides eligible breweries with a refund of 60% of excise paid up to $30,000 per financial year.

The scheme will not be extended to most alcopops producers (that is, those that merely purchase the spirits and add the soda and other flavours), nor wine which benefits from the wine equalisation tax rebate.

More

- Wine Equalisation Tax rebate – improving integrity and growing exports

Business Tax & Funding

Buying something online? GST will apply to all imported consumer goods

Date of effect	1 July 2017

Currently, the GST system provides an exemption for goods that are imported into Australia with a value of less than $1,000. This exemption will be removed so that GST can apply to all goods imported by consumers from 1 July 2017.

In effect, all goods imported by consumers will face the same tax regime as goods that are purchased in Australia.

Overseas suppliers that have an Australian turnover of $75,000 or more will be required to register for, collect and remit GST for all goods supplied to consumers in Australia (regardless of their value), using a vendor registration model.

While this is unlikely to have a direct impact on Australian businesses importing goods from overseas, this should at least level the playing field so that foreign suppliers will need to factor in GST obligations when selling goods to Australian customers.

It will be interesting to see how the ATO enforces these new rules. The Government has indicated that the measure will be reviewed after two years to ensure that the new rules operate as intended and to take account of any international developments.

Simplifying Division 7A

Date of effect	1 July 2018

Division 7A will be amended to ease the compliance burden associated with the rules and to give effect to some of the recommendations made by the Board of Taxation in its *Post-implementation Review into Division 7A*.

The reforms include a self-correction mechanism for inadvertent breaches of Division 7A, appropriate safe-harbour rules to provide certainty, simplified Division 7A loan arrangements and a number of technical adjustments to improve the operation of Division 7A and provide increased certainty for taxpayers.

This is a welcome development, particularly for small and medium business taxpayers using companies for business or investment activities who struggle to understand and comply with the existing rules.

Wine equalisation tax tightened

Date of effect	From 1 July 2017

The wine equalisation tax (WET) rebate cap will reduce from $500,000 to $350,000 on 1 July 2017 and to $290,000 on 1 July 2018.

In addition, new integrity measures will be introduced to tighten access. Under the tightened eligibility criteria, a wine producer must own a winery or have a long-term lease over a winery and sell packaged, branded wine domestically.

See also Wine tourism promotion

More

- Wine Equalisation Tax rebate – improving integrity and growing exports

Medicare Benefits Schedule indexation pause extended

The Government will extend the pause on indexation of Medicare Benefits Schedule fees for all services provided by general practitioners, medical specialists, allied health and other health practitioners until 30 June 2020.

Aged care funding changes expanded

Date of effect	2016-17

Building on the reforms in the mid-year economic review measure, *Aged Care Provider Funding - revision to the Aged Care Funding Instrument Complex Health Care Domain,* the Government will change the scoring matrix of the Aged Care Funding Instrument (ACFI) that determines the level of funding paid to aged care providers.

In addition, the Government will also reduce indexation of the Complex Health Care component of the ACFI by 50% in 2016-17 and establish a $53.3 million transitional assistance fund to support providers.

Regional care facilities

$102.3 million has been allocated over 4 years to change how the aged care viability supplement is applied. The current remoteness classification system will be replaced by the Modified Monash Model, bringing the viability supplement into line with other health programs.

The viability supplement was introduced in 1997 to address the cost pressures of residential care providers servicing small, rural and remote locations.

Large Business Tax Measures

UK style diverted profits tax - Further measures to reign in multinationals

Date of effect	1 July 2017 and applies whether or not a relevant transaction (or series of transactions) was entered into before that date

In April 2015, the UK introduced a 25% tax on diverted profits created by activity in the UK. The intent was to "target large multinational enterprises with business activities in the UK who enter into contrived arrangements to divert profits from the UK by avoiding a UK taxable presence and/or by other contrived arrangements between connected entities." The UK tax rules apply to entities with sales revenue in the UK greater than £10m.

Australia intends to introduce it's own version of the diverted profits tax (DPT), applying to multinationals with global revenue of $1 billion or an entity that is a member of a group of entities, consolidated for accounting purposes, which has annual global income of $1 billion or more. The DPT will:

- Impose a penalty tax rate of 40% on profits transferred offshore through related party transactions with insufficient economic substance that reduce the tax paid on the profits generated in Australia by more than 20%;
- Apply where it is reasonable to conclude based on the information available at the time to the ATO that the arrangement is designed to secure a tax reduction;
- Provide the ATO with more options to reconstruct the alternative arrangement on which to assess the diverted profits where a related party transaction is assessed to be artificial or contrived;
- Impose a liability when an assessment is issued by the ATO (that is, it will not operate on a self-assessment basis);
- Require upfront payment of any DPT liability, which can only be adjusted following a successful review of the assessment; and

- Put the onus on taxpayers to provide relevant and timely information on offshore related party transactions to the ATO to prove why the DPT should not apply.

The Australian DPT will not apply to multinationals with an Australian turnover of less than $25 million unless they are artificially booking their revenue offshore.

The DPT is part of a broader suite of measures including:

- Eliminating hybrid mismatch arrangements where corporates take advantage of differences in the tax treatment of financial instruments or entities in different countries to avoid paying tax;
- Implementing the OECD's recently updated Transfer Pricing Guidelines to ensure that Australia continues to have best practice transfer pricing rules to help prevent multinationals from using excessive related party payments to shift profits overseas;
- Introducing a new disclosure regime which would require tax and financial advisers to report aggressive tax planning schemes;
- Increased protection measures for people who disclose information about tax misconduct to the ATO; and
- Establishing a new Tax Avoidance Taskforce within the ATO to enhance its audit activity for large corporates and high wealth individuals.

More

- Consultation Paper - Implementing a diverted profits tax

Transfer mispricing by multinationals

Date of effect	1 July 2016

The Government will adopt the OECD transfer pricing recommendations in *Aligning Transfer Pricing Outcomes with Value Creation.* The guidelines enhance guidance on intellectual property and hard-to-value intangibles, and ensure that transfer pricing analysis reflects the economic substance of the transaction.

100 fold increase in penalties for large business failing to disclose

Date of effect	1 July 2017

The administrative penalties imposed on companies with global revenue of $1 billion or more that fail to lodge tax documents with the ATO on time will increase from a maximum penalty of $4,500 to $450,000 from 1 July 2017.

Penalties relating to making statements to the ATO will be doubled.

Tackling multinational exploitation of differences in tax treatment across tax jurisdictions

Date of effect	The later of 1 January 2018 or 6 months following the date of Royal Assent of the enabling legislation

This reform implements the OECD's rules to eliminate hybrid mismatch arrangements. The reform is aimed at multinational corporations that exploit differences in the tax treatment of an entity or instrument under the laws of two or more tax jurisdictions. This measure targets instances where tax is either deferred or not paid at all. It will apply broadly to related parties, members of a control group and structured arrangements.

A common example of this would be where a loan between related parties is treated as debt in one country (e.g., which enables interest deductions to be claimed) while being treated as equity in another country.

Further consolidation reform

Deductible liabilities of a joining entity

Date of effect	1 July 2016 (originally 14 May 2013)

This measure reforms the 2013-14 Budget measure *Closing loopholes in the consolidation regime — deductible liabilities of a joining entity* to address the double counting of deductible liabilities under the consolidation regime.

The modifications mean that a consolidated group that acquires a subsidiary with deductible liabilities will no longer include those liabilities in the consolidation entry tax cost setting process, therefore removing a double tax benefit. This measure also defers the start date from 14 May 2013 to 1 July 2016.

The 2013-14 Budget measure required the consolidated group to recognise an additional income amount over the first four years after acquiring an entity with deductible liabilities. The modified approach of denying an increase in the consolidated entry cost setting process will result in lower depreciation allowances over a longer period of time and therefore a delay to the revenue gain from eliminating the double tax benefit.

Securitised assets and non-financial institutions

Date of effect	Applies to arrangements that commence on or after 7:30 pm (AEST) on 3 May 2016

Extends a previous Budget measure, *Closing loopholes in the consolidation regime - securitised assets*, to non-financial institutions. The measure applies the same treatment to liabilities arising from securitisation arrangements within both financial and non-financial institutions. These liabilities will be disregarded if the relevant securitised asset is not recognised for tax purposes. This change will apply to arrangements that commence on or after 7:30 pm (AEST) on 3 May 2016. Transitional rules will apply to arrangements that commence before this time. The revenue gain from this measure is unquantifiable.

Deferred tax liabilities

Date of effect	Date of amending legislation

This reform amends the consolidation regime's treatment of deferred tax liabilities by removing adjustments relating to deferred tax liabilities from the consolidation entry and exit tax cost-setting rules. This change will apply to joining and leaving events under transactions that commence after the date amending legislation is introduced in Parliament.

The Government sees there is currently a commercial/tax mismatch under the consolidation entry and exit tax cost-setting processes for deferred tax liabilities.

Simplifying the Taxation of financial arrangements

Date of effect	Income years on or after 1 January 2018

This reform is aimed at reducing the scope and decreasing the compliance costs of the rules that deal with the taxation of financial arrangements (TOFA).

The current TOFA rules calculate the amount and timing of gains and losses on financial arrangements, and were designed for the largest taxpayers. However, in practice, these rules apply to a significant group of smaller taxpayers and TOFA has not delivered the envisaged compliance cost savings and simplification benefits to these taxpayers.

The measure contains four key components:

- A 'closer link to accounting' which will strengthen and simplify the existing link between tax and accounting in the TOFA rules.
- Simplified accruals and realisation rules, which will significantly reduce the number of taxpayers in the TOFA rules, will reduce the arrangements where spreading of gains and losses is required under TOFA and simplify the required calculations.
- A new tax hedging regime which is easier to access, encompasses more types of risk management arrangements (including risk management of a portfolio of assets) and removes the direct link to financial accounting.
- Simplified rules for the taxation of gains and losses on foreign currency to preserve the current tax outcomes but streamline the legislation.

Superannuation

The Government has introduced a series of dramatic changes to the concessional tax status of superannuation. The reforms will change many of the strategies advisers currently utilise to maximise benefits for clients.

More

- [A more sustainable superannuation system]

Lifetime cap on non-concessional contributions

Date of effect	7.30 pm (AEST) on 3 May 2016 Applies to all non−concessional contributions made on or after 1 July 2007

A lifetime $500,000 non-concessional contributions cap will be introduced from Budget night.

The current system of annual non-concessional contributions of up to $180,000 per year (or $540,000 every three years for individuals aged under 65), will be replaced with this new lifetime cap.

The lifetime cap will take into account all non-concessional contributions made on or after 1 July 2007 and will commence at 7.30 pm (AEST) on 3 May 2016. Contributions made before commencement will not result in an excess. However, excess contributions made after commencement will need to be removed or will be subject to penalty tax. The cap will be indexed to average weekly ordinary time earnings.

After-tax contributions made into defined benefit accounts and constitutionally protected funds will be included in an individual's lifetime non−concessional cap. If a member of a defined benefit fund exceeds their lifetime cap, ongoing contributions to the defined benefit account can continue but the member will be required to remove, on an annual basis, an equivalent amount (including proxy earnings) from any accumulation account they hold. The amount that could be removed from any accumulation accounts will be limited to the amount of non-concessional contributions made into those accounts since 1 July 2007. Contributions made to a defined benefit account will not be required to be removed.

The lifetime cap is available up to age 74.

Concessional contributions cap reduced

Date of effect	1 July 2017

The current concessional contributions cap will reduce to $25,000 from 1 July 2017.

	Current concessional cap	**From 1 July 2017**
Under age 50	$30,000	$25,000
50 and over	$35,000	$25,000

From 1 July 2017, the Government will include notional (estimated) and actual employer contributions in the concessional contributions cap for members of unfunded defined benefit schemes and constitutionally protected funds. Members of these funds will have opportunities to salary sacrifice commensurate with members of accumulation funds. For individuals who were members of a funded defined benefit scheme as at 12 May 2009, the existing grandfathering arrangements will continue.

Tax Exemption on Transition to Retirement Income Stream Earnings removed

Date of effect	1 July 2017

The tax exemption on the earnings of assets supporting Transition to Retirement Income Streams will be removed from 1 July 2017. The rule that allows individuals to treat certain superannuation income stream payments as lump sums for tax purposes will also be removed.

30% tax on super for high income earners

Date of effect	1 July 2017

At present, individuals with combined income and superannuation contributions of more than $300,000 pay an *additional* contributions tax of 15% on concessional contributions. From 1 July 2017, this income threshold will reduce to $250,000.

The lower Division 293 income threshold will also apply to members of defined benefit schemes and constitutionally protected funds currently covered by the tax. Existing exemptions (such as State higher level office holders and Commonwealth judges) for Division 293 tax will be maintained.

Tax free super balances capped at $1.6m

Date of effect	1 July 2017

A new $1.6 million cap will apply to how much can be transferred into a retirement phase account. Earnings on amounts within the account will continue to be tax-free. Transfers in excess of this $1.6 million cap (including earnings on these excess transferred amounts) will be taxed in a similar way to the tax treatment that applies to excess non-concessional contributions.

Where an individual accumulates amounts in excess of $1.6 million, they will be able to maintain this excess amount in an accumulation phase account (where earnings will be taxed at the concessional rate of 15%).

Members already in the retirement phase with balances above $1.6 million will be required to reduce their retirement balance to $1.6 million by 1 July 2017. Excess balances for these members may be converted to superannuation accumulation phase accounts.

The amount of cap space remaining for a member seeking to make more than one transfer into a retirement phase account will be determined by apportionment.

Commensurate treatment for members of defined benefit schemes will be achieved through changes to the tax arrangements for pension amounts over $100,000 from 1 July 2017.

See also the *Lifetime cap on non-concessional contributions.*

Anti-detriment provisions removed

Date of effect	1 July 2017

The anti-detriment provision will be removed from 1 July 2017. The rules can currently allow a refund of a member's lifetime superannuation contributions tax payments into an estate where the beneficiary is a dependant of the member.

The move is estimated to save $350 million over 4 years.

Tax deductions on super contributions expanded

Date of effect	1 July 2017

All individuals up to age 75 will be able to claim an income tax deduction for personal superannuation contributions from 1 July 2017. This effectively allows all individuals, regardless of their employment circumstances, to make concessional superannuation contributions up to the concessional cap – partially self employed, employees whose employers don't offer salary sacrifice arrangements, etc.

This is a sensible move which means that it will no longer be necessary for individuals to pass a 10% test in order to be able to claim a deduction for personal superannuation contributions. Currently, an individual can only claim a deduction for personal contributions where less than 10% of their adjusted income for the year relates to employment activities. The 10% test can make it difficult for people who have started their own business to make deductible superannuation contributions where they also have part-time work.

Tax back for low income earners contributing to super

Date of effect	1 July 2017

A Low Income Superannuation Tax Offset (LISTO) will provide a non-refundable tax offset to superannuation funds, based on the tax paid on concessional contributions made on behalf of low-income earners, up to a cap of $500. The LISTO applies to members with adjusted taxable income up to $37,000 that have had a concessional contribution made on their behalf.

Members of certain prescribed funds would not be entitled to deduct contributions to those schemes. Prescribed funds will include all untaxed funds, all Commonwealth defined benefit schemes, and any State, Territory or corporate defined benefit schemes that choose to be prescribed.

'Catch-up' concessional contributions

Date of effect	1 July 2017

If your superannuation balance is less than $500,000, you will be able to make additional concessional contributions if you have not reached your concessional contributions cap in previous years. Amounts are carried forward on a rolling basis for a period of five consecutive years, and only unused amounts accrued from 1 July 2017 can be carried forward.

The measure will also apply to members of defined benefit schemes.

Removing contribution restrictions for those 65 to 74

Date of effect	1 July 2017

Currently, people aged 65 to 74 have a number of restrictions inhibiting their capacity to contribute to superannuation, including a work test.

The Government is changing all that so that people under the age of 75 will no longer have to satisfy a work test and will be able to receive contributions from their spouse. In some circumstances it will be an opportunity to boost retirement savings from sources other than work, such as downsizing the family home.

Boosting the super balance of your spouse

Date of effect	1 July 2017

The low-income spouse superannuation tax offset income threshold will increase to $37,000 (from $10,800) from 1 July 2017.

The offset provides up to $540 per annum for the contributing spouse.

Choice in retirement income products

Date of effect	1 July 2017

The tax exemption on earnings in the retirement phase will be extended to products such as deferred lifetime annuities and group self-annuitisation products. These products seek to provide individuals with income throughout their retirement regardless of how long they live. This will allow providers to offer a wider range of retirement income products which will provide more flexibility and choice for Australian retirees, and help them to better manage consumption and risk in retirement, particularly longevity risk, wherein people outlive their savings.

More

- Enhancing choice in retirement income products
- Retirement Income Streams Review

Individuals & Families

Personal tax cuts for middle income earners

Date of effect	1 July 2016

The 32.5% personal income tax threshold will increase from $80,000 to $87,000 from 1 July 2016. The new tax rates from 1 July 2016 would be as follows:

Taxable income	Tax rate from 1 July 2016
$0 - $18,200	0%
$18,201 - $37,000	19%
$37,001 - $87,000	32.5%
$87,001 - $180,000	37%
$180,001 and over	45%

These tax rates exclude the Medicare Levy and the 2% debt tax on high-income earners over $180,000 which will come to an end on 30 June 2017.

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- A tax plan for Australia's future

Low-income earners

Increase in the Medicare low-income threshold

Date of effect	2015-16 income year

The Medicare low-income threshold for singles, families and seniors and pensioners will increase.

	2015-16 income year threshold
Singles	$21,335
Couples (no children)	$36,001
Additional amount of threshold for each dependent child or student	$3,306
Single seniors and pensioners	$33,738
Senior and pensioner couples with no children	$46,966

Pause on Indexation of Medicare Levy Surcharge and Private Health Insurance Rebate Thresholds extended

The current pause in indexation of the income thresholds for the Medicare Levy Surcharge and Private Health Insurance Rebate will be extended for a further three years. The continued pause from 1 July 2018 is expected to achieve efficiencies of $744.2 million over three years.

Child care reforms on hold

The Government has deferred the implementation of the *Child Care Subsidy*, *Additional Child Care Subsidy* and *Community Child Care Fund* by one year to 1 July 2018 due to the Family Tax Benefit reforms required to fund the child care package not being passed by the Senate.

The *Interim Home Based Carer Subsidy Pilot Programme* (*Nanny Pilot Programme*), that started on 1 January 2016 and subsidises care provided by a nanny in a child's home, will be extended for six months to 30 June 2018. The hourly fee cap will be increased from $7 to $10 from 1 June 2016.

Unemployed youth – subsidies to create path to employment

PaTH (Prepare – Trial – Hire) is for job seekers under 25 years of age. The program has 3 elements:

- Industry-endorsed pre-employment training (Prepare) - from 1 April 2017, training for up to six weeks will be provided to develop basic employability skills, including those required to identify and secure sustainable employment.
- Internship placements of up to twelve weeks (Trial) - from 1 April 2017, up to 30,000 internship placements will be offered each year to enable businesses and job seekers to trial their employment fit. Job seekers will receive a $200 fortnightly incentive payment and businesses will receive $1,000 upfront to host an intern. Placements will be voluntary and will be organised by employment services providers. Job seekers must be registered with *jobactive*, *Disability Employment Services* or *Transition to Work*, and have been in employment services for at least six months to be eligible for the internship program.
- Youth Bonus wage subsidies (Hire) - from 1 January 2017, employers will receive a wage subsidy of up to $10,000 for job seekers under 25 years old with barriers to employment and will continue to receive up to $6,500 for the most job-ready job seekers. Job seekers must be register with *jobactive* or *Transition to Work*, and have been in employment services for at least six months for employers to be eligible for the wage subsidy. Funding for this component will be provided from within the existing funding for wage subsidies.

More

- Creating a path to real jobs for young people

No tax for Defence personnel in Afghanistan

Australian Defence Force personnel deployed on Operation PALATE II in Afghanistan will be provided with a full income tax exemption from 1 January 2016, and will remain in effect until 31 December 2016.

Other

$678.9 million for new ATO anti-avoidance taskforce

A new anti-avoidance taskforce will undertake "enhanced compliance activities" targeting multinationals, large public and private groups and high wealth individuals.

This measure provides the ATO with a 55% increase in funding for compliance programs targeting multinationals and high wealth individuals, with a 43% increase in resources devoted to tackling multinationals (including ramping up to an additional 390 average staffing level per year).

Information sharing between the ATO and ASIC will also be improved.

More

- A new Tax Avoidance Taskforce

Cigarette prices going up

Date of effect	Indexation increase 1 September 2017 Duty free allowance limited from 1 July 2017

As expected, the price of cigarettes will go up with an increase in tobacco excise.

The Government will increase tobacco excise and excise equivalent customs duties through four annual increases of 12.5% per year from 2017 until 2020. The increases will take place on 1 September each year and will be in addition to existing indexation to average weekly ordinary time earnings.

In addition, the Government will also limit, from 1 July 2017, the duty free tobacco allowance to 25 cigarettes or equivalent from the current allowance of 50 cigarettes.

This measure is estimated to have a gain to the Budget of $4.7 billion over the forward estimates period.

More

- A tax plan for Australia's future

Infrastructure projects

$2.9 billion has been provided for new infrastructure development projects across Australia including:

- $1.5 billion for new projects in Victoria to be funded on a matching basis with the Victorian Government, including $350 million for the Western Ring Road, $220 million for the Murray Basin freight rail upgrade, $500 million on the Monash Freeway, $345 million for rural and regional highways, $75 million for urban congestion and $10 million to progress the business case for the Melbourne Metro;
- $260.8 million for the tunnel section of Stage 2 of the Perth Freight Link, bringing the total Government commitment to the project to $1.2 billion;
- $200 million for the Ipswich Motorway in Queensland to be funded on a matching basis with the Queensland Government;
- Up to $50 million to allow the Commonwealth to adopt a more active role in preparing project and business cases with the states and territories; and
- $920 million in annual funding from 2019-20 to successful infrastructure sub-programs, including $400 million to increase and extend the *Roads to Recovery* program, $60 million for the *Black Spots* program, $40 million for the *Heavy Vehicle Safety and Productivity* program, $60 million for the *Bridges Renewal* program, $350 million for National Network Maintenance and $10 million for Research and Evaluation.

Geographic modelling of resources

Date of effect	From 2016-17

The Budget provides $100.5 million over four years to produce geographical modelling of mineral, petroleum and groundwater resources in targeted areas across northern Australia and South Australia.

International offices and 'landing pads'

Funding has been provided to bring forward the opening of the Singapore and Berlin 'Landing Pads' from 2018-19 to 2016-17. The Landing Pads will support emerging Australian companies.

The Budget also includes previously announced funding to re-open an Austrade office in Tehran, Iran.

Wine tourism promotion

$50 million is being provided to the Australian Grape and Wine Authority to promote wine tourism within Australia and Australian wine overseas.

See also Wine equalisation tax tightened

More

- Wine Equalisation Tax rebate – improving integrity and growing exports

Farm Household Allowance debt waiver

Any Farm Household Allowance (FHA) recipients who incurred an income support debt arising from an underestimate of their annual business income in 2014-15 will be offered a transitional debt waiver.

Income support debt from 2015-16 onwards will be subject to the usual debt recovery arrangements

Deregulation of Universities dropped

The Government has confirmed it will not proceed with the deregulation of university fees announced in the 2014-15 Budget.

Economic Overview

- **Real GDP** - forecast to grow by 2.5% in 2015-16 and 2016-17, before increasing to 3% in 2017-18.
- **Deficit** – Underlying cash deficit forecast to be $37.1 billion in 2016-17.
- **Employment growth** – 1.75% in 2016-17 and 2017-18.
- **Unemployment** – expected to be 5.75% in 2015-16, then decreasing to 5.5% in 2016-17 and 2017-18.
- **Household consumption** – forecast to grow consistently at 3%
- **Consumer Price Index** – 1.25% in 2015-16, before increasing to 2% in 2016-17 and 2.25% in 2017-18.
- **Wages growth** – is expected to remain moderate at 2.25% in 2015-16, before increasing to 2.5% in 2016-17 and 2.75% in 2017-18.
- **Tax receipts** – forecast tax receipts since the 2015-16 Mid Year Economic Review are down $13.5 billion - currently trending below average as a share of GDP but forecast to return to average levels in 2017-18. The lower tax take is predominantly from superannuation funds and individuals.
- **Business investment** - dominated by shrinking mining investment which is expected to fall by 27.5% in 2015-16 and 25.5% in 2016-17.
- **Exports -** Total exports expected to increase by 6% in 2015-16, 5% in 2016-17 and 5.5% in 2017-18.
    - Non-rural commodity exports expected to grow by 7% in 2016-17 and 7.5% in 2017-18 as iron ore and LNG production continues to ramp up.
- **Strength of trading partners** - Australia's major trading partner growth is forecast to remain higher than global growth, at 4% across the forecast period:
    - China is forecast to grow at 6.5% in 2016, 6.25% in 2017 and 6% in 2018.
    - India is forecast to grow at 7.5% in 2016-17, rising to 7.75% in 2018.
    - The US is expected to grow at 2% in 2016, rising to 2.25% in 2017 and 2018.
    - The Euro area growth is forecast at 1.5% over the next three years.

Links

Budget documents

- Budget 2016-17
- Budget Speech

Media Releases

- A more sustainable superannuation system
- A tax plan for Australia's future
- A new Tax Avoidance Taskforce
- Embracing out FinTech Future
- Creating a path to real jobs for young people
- Wine Equalisation Tax rebate – improving integrity and growing exports
- Easing the tax burden and making life easier for hard working small businesses

Consultation papers

- Encouraging venture capital investment in FinTech
- OECD Proposals for Mandatory Disclosure of Tax Information
- GST treatment of digital currency
- Implementing a diverted profits tax